

# BEAR STEARNS

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## Panel One

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# The Pressures on the TV Station Business: The Impact of Cable Networks, MSOs, PVRs, and Public Broadcasting on Viewership and Advertising

## Panelists

David Barrett — CEO, Hearst-Argyle Television

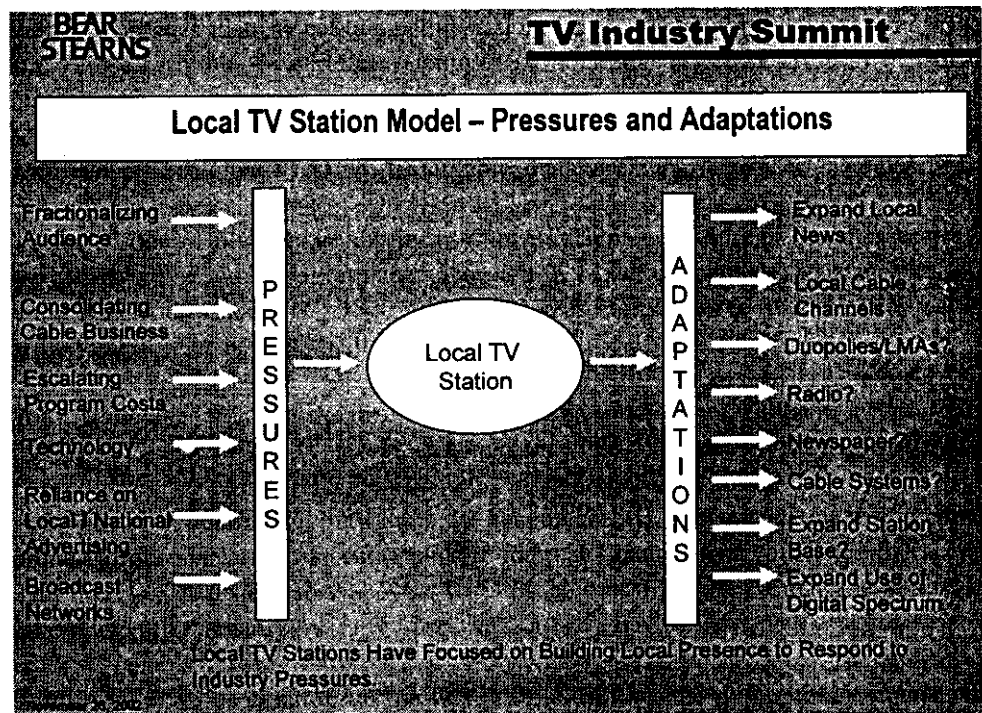
Chris Rohrs — CEO, Television Bureau of Advertising

John Lansing — Senior Vice President of Broadcasting, E.W. Scripps Company

Jerald Fritz — Vice President of Legal and Strategic Affairs, Allbritton Communications

Panel Time: 8:30 A.M. to 9:45 A.M. **E.S.T.**

Victor Miller: The first panel has David Barrett, the chief executive officer of Hearst-Argyle Television; Chris Rohrs, the CEO of the Television Bureau of Advertising; John Lansing, the senior vice president of broadcasting at the **E.W.** Scripps Company; and Jerry Fritz, the vice president of legal and strategic affairs of Allbritton Communications. Thanks for coming.



This panel — if we go back to our model, the local TV station — is going to focus really on the pressures that the local TV model must contend with, and we're going to tangentially talk about the impact of these pressures on advertising. But the next panel is going to get into the heart of the revenue and expense side of this equation. Anyway, let's look at the reality.

## In-Home Competition for Local Television Stations: 1980 - 2001

	1980	1990	2001
Full-TM Stations	1,011	1,442	1,619
TV Radio Stations	7,800	9,900	10,800
TV Channels per HH	10.2	22.2	33.4
Cable Penetration	24.0%	55.5%	65.0%
VCR Penetration	1.0%	66.1%	85.2%
DBS Penetration	0.0%	0.9%	17.0%
DVD Penetration	0.0%	0.0%	13.0%
Computer Penetration per HH	8.0%	45.0%	51.0%
Internet Access per HH	0%	0%	41.5%
Video and PC Software Sales	NA	NA	\$8.3 billion

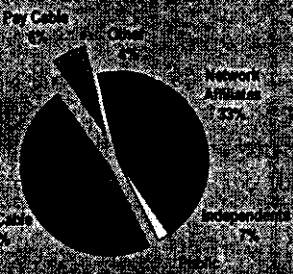
Source: FCC Hearing Paper, Sept 2002; TV Dismantling 2002; NAB State of the Industry 2000, U.S. Census Bureau

Here's the number of TV stations, radio stations . . . cable penetration, VCR penetration. You can see dramatic changes in the last 21 years, no matter how you slice this up. For our first topic, we're going to discuss the impact of cable systems, networks, broadcast networks, personal video recorders (PVRs), DVDs, Internet, public broadcasting, etc. on the broadcast viewership. It's a lot of parties at the table for the consumer's attention in the home. We will discuss the impact of all these players on local broadcasters and how local broadcasters have adapted to the changing marketplace.

## Viewership Trends – Cable Households – Total Day

1989/1990

2000/2001



Over the last 10 years, basic and pay cable have captured 15% more viewing share

Source: NAB, National Association of Broadcasters

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“With each passing day, media **is** more competitive.”

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“Ours are inherently local businesses, and we have placed more and more emphasis on developing our local advertiser customer base.”

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“We **are a** local medium, and we **are all** concentrating on something that cable cannot provide — local news.”

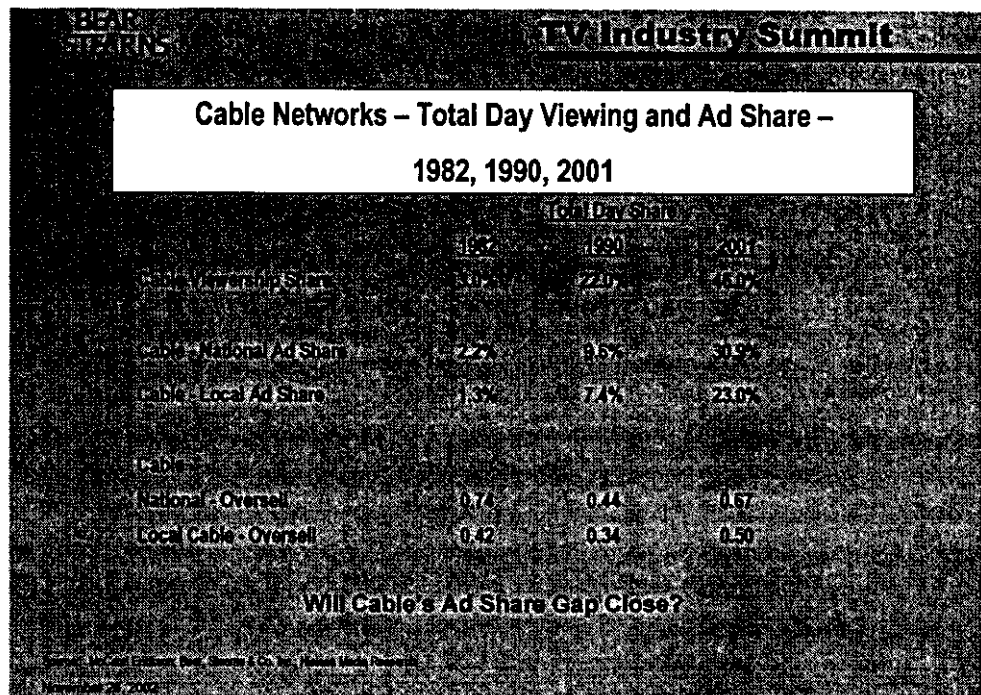
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We’ve established that there’s a lot of competition, a lot of new people looking to get the attention of the **person**, the average person in the home. Let’s talk about the cable share of ad dollars right away. You can see that cable share of ad dollars — we’ve broken that out — has gone up about 15 percentage points from the 1989-90 season through the 2000-01 season. The first question to open it up, David, let’s start with **you**, is what impact the cable network business has had on your business, and how have you changed the nature of the local TV station business to address the issue? And if you have any comments on what I started with, jump in at any time.

David **Barrett**: I think that we would observe that throughout the history of media, with each passing day, media is more competitive. Every single day we’re in business is more competitive than the day before it. And certainly cable, which was spawned **as** a delivery mechanism to help television stations better reach all of their potential viewers, has become a significant business force. Our point of emphasis, **as** a company, and I think most of the big groups share this observation, is that ours are inherently local businesses, and we have placed more and more emphasis on developing our local advertiser customer base; that is, indeed, the advertising customer base that radio stations pursue and the local cable MSOs are pursuing. But I think you’ve seen a significant shift of composition of advertising revenues on local TV stations, moving from 70% of revenue being derived from national advertising and 30% from local to a mix of probably **55%** local, **45%** national, if you get outside the top ten markets. So that has really been, I think, the positive point of development for the TV sector. We’re developing more customers, and I would observe that the TV, local TV, business, is extraordinarily durable. These are businesses that are some 50 years old. And in the main — most stations in 2000 delivered the highest revenue total and the highest bottom-line total in the history of the medium. One could **say** that was an aberrational high, and I would say that 2001 is an aberrational low. But the earnings capacity of local TV stations still remains strong, and that earnings capacity is buttressed by how well the station does in the local marketplace.

Victor Miller: Have you guys made any programming changes to adapt to the cable network business? Jeny?

Jerry Fritz: Well, I was thinking when I came here this morning that there’s some things that you just can’t avoid. I spent last night with our twin fourth graders going over fractions, and here we are 12 hours later, and I’m still talking about fractions — applied fractions. I think fourth-grade fractions are easier. I agree with David, the three companies here — Scripps, Hearst, and Allbritton — have all concentrated on reforming their local response to cable. We all have cable news channels, for example. We all have increased the amount of local news that we generate. We strive for the best syndicated programming, and *our affiliations* with our networks; although all of us have had discussions with our network to improve the network affiliate relationship . . . we strive for the strongest network programming. We strive for the best syndicated product that we can buy. But, fundamentally, David said it best that we are a local medium, and we are all concentrating on something that cable cannot provide — at least has not been able to provide in any economical way — which is local news.



**Victor Miller:** The slide above shows the cable share of ad dollars versus the ratings. **You** can see cable's viewership share has gone from about 3% in 1982 to almost 46% of total day viewing in 2001; this was from Nielsen November sweeps. But the cable share of national ad dollars is about 30.9%, and local dollars is about 23%. So their oversell — which is, obviously, an undersell here — would be a conversion ratio of about 67% on the national side and 50% on the local side. The question, it says right on the bottom, maybe Chris, you could **start** off with this, is will cable's ad share . . . will they ever close the gap? And then **I** want to have John talk about what you're seeing in terms of pressure being applied from the cable network side in terms of the advertising side of the picture. Chris?

**Chris Rohrs:** Well, the short answer, I think, is it's going to be very difficult for them to close the gap on the network side. Of course, the gap is widening; it's not narrowing. The CPM [cost per thousand viewers] gap is growing, and I think it's going to be . . . some people feel it will be easier for them to narrow the gap on the local side; I don't think it will be. I think it'll be a very daunting challenge. By the way, we have cable's local ad share at about 15% — this says 23%. We feel it's lower, at about 15% of local television revenues. There are two particular problems for local cable to narrow the gap **as** opposed to network cable. The first, and most obvious, is that they have a limited share of the total cable avails [advertising inventory]. Local gets the short shrift in the cable world in terms of the avail distribution. And the second problem that local cable, in particular. . .

**Victor Miller:** So 20% of the total inventory of the cable network business is local [sold by local cable system operators]; the other 80% is national [inventory] sold by the cable networks themselves.

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“There’s a reach disadvantage, an audience reach disadvantage — there’s just a sheer rating disadvantage.”

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Chris Rohrs: Right . . . it’s a different model than the overall broadcast world in terms of the distribution of inventory. The second real challenge for local cable to narrow the gap has to do with the satellite distribution and the audience — about 20% of which comes, for cable networks, from satellite. And, of course, there’s no local cable insertion, so they have an audience disadvantage also; those two factors are going to make it tough for local, in particular, to close the gap and for cable, overall, to close the gap . . . they’re [the cable networks] fighting three main problems: there’s a reach disadvantage, an audience reach disadvantage — there’s just a sheer rating disadvantage, fractionalized, smaller audiences. But most important of all, there’s too much inventory and it’s absolutely hammering the network cable business, and it’s beginning to also hurt the local cable business; there’s too many avails out there.

One other point I would make in terms of the number of stations and radio and cable. What’s striking to me about that — it’s a picture of unbelievable change . . . more sources of viewing and . . . but what has not changed is the amount of time that people have. There’s still 24 hours in the day. So, in that context, it’s quite astonishing that broadcast has held on to the strength that it has . . . with that explosion of choice, no change in the amount of time to view. And, yet, for instance, I pulled the numbers last night. Last week, 99 of the top 100 programs in television ran on broadcast. Despite all that change and explosion of viewing options and demands on your time, broadcast still maintains a great connection to the audience. So, long answer, I don’t think the gap will close very easily.

Victor Miller: John, what do you see in the local market? Are you seeing any money flowing to the local cable guys? Are they the same advertisers, or are they different advertisers altogether?

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“While broadcasters are held accountable for their delivery of an audience, the cable interconnect is not. They’re not posted based on their ratings delivery.”

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John Lansing: Well, there’s definitely an impact on local ad sales brought on by the local interconnects. Often, they’re out selling inventory at a rate that would be very competitive with ours, but their delivery is all but nil. And what we also have to suffer with is the fact that while broadcasters are held accountable for their delivery of an audience, the cable interconnect is not. They’re not posted based on their ratings delivery. And so, they’re out selling spot rates, but not necessarily selling that audience to the advertiser. So, is it a threat? Yes, but I think the playing field will be leveled in the near future as Nielsen begins recording the actual ratings for local interconnect separate from the DBS so that they can see the reality of the ratings delivery. And, in the end, it will illustrate the enormous cost per thousands that people are paying in the local marketplace. One thing that’s interesting, in our company as David’s, is that the cable network advertising model and the local cable advertising model are very different. When you go into a local cable interconnect — as I have visited Time Warner, for instance, in Cincinnati, and they’re very proud of their ability to do zone advertising, . . . and to cut the community of Cincinnati into 12 zones and sell advertising into those zones . . . and you really begin to realize how many viewers they are really delivering to an advertiser in a zone and what is that advertiser actually paying for that delivery. It really becomes almost a joke. Now, you compare that to the national cable network model — albeit different, it’s focused on niche categories and the ability for an advertiser such as a Lowe’s or a Home Depot to reach, if you will, a prequalified consumer through advertising on a niche network, or a tennis shoe advertiser on a niche network, such as ESPN. Then the



higher cost per thousands might be justified on the basis of delivering a niche product to an advertiser interested in buying that product. That model is not in existence in the local cable interconnect business, and I think that difference is important for people to understand.

Victor Miller: David, I think you had a follow-up?

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“It becomes, in a very competitive world, who’s got the best programs, who’s got the best management, who’s got the best relationships with advertisers.”

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David **Barrett**: Well, Victor, in the context of where this goes over five years, I think it’s important that we consider how our customers view television — the viewer customers and the advertiser customers. And I think, increasingly, they don’t view it as cable or broadcast television, they view it **as** television. And then one focuses on who’s got the viewer proposition — that means, who’s got the most popular programs, who can aggregate the largest audience? And that aggregation of the largest audience against demographic groups is what the advertiser proposition is all about. And that absolutely gives the advantage to the over-the-air television stations compared to the niche boutique cable network offerings. The viewer proposition is superior, the advertiser proposition is superior, the ability to aggregate these demographic “sells” the advertisers want to buy is an advantage. And then it becomes, in a very competitive world, who’s got the best programs, who’s got the best management, who’s got the best relationships with advertisers. And who can produce the best results. And it is very difficult for a local interconnect to overcome these advantages that a local television station has in Washington or Baltimore if we stick close to home — certainly Comcast is mounting an effort to be in the local business, but its ability in Baltimore to overcome the advantages and the relationships that Scripps-Howard and CBS Viacom and Hearst-Argyle have in that marketplace with viewers and advertisers is a formidable challenge.

Victor Miller: Do you have any idea of how much money some of the interconnects are **taking** out of your marketplace? Can you just give us a sense, “in x market, we think it’s about x dollars?” Do you have any sense of . . . some of the money being pulled out of your markets by those?

John Lansing: It is significant. I will say that in most of our markets, it represents the size of a third-tier TV station, meaning maybe a quarter of what one of the top two or three TV stations would be doing. Their growth over the last three to five years has been interesting, but I think the accountability . . . the chickens would come home to roost in terms of accountability for that [guaranteeing audience delivery]. And there’s a real story to tell. And, with the help of TVB, we’ve had the ability to go out and tell that story.

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“Comcast’s ability to attract qualified salespeople, increase commissions, and have **more** sophisticated selling does have an impact.”

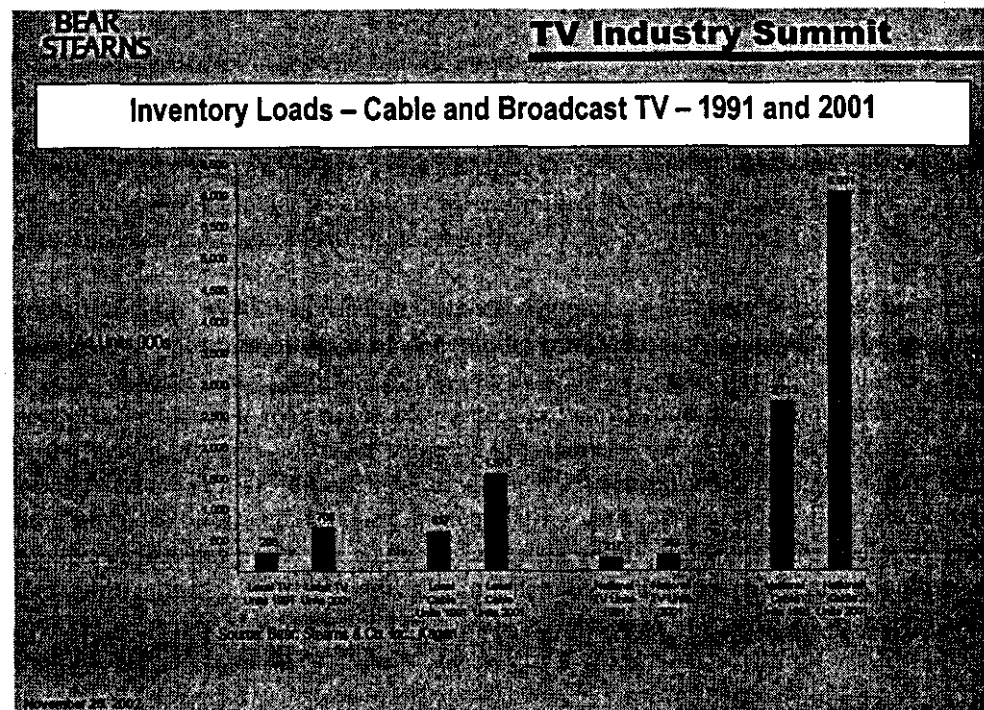
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Jerry Fritz: Consolidation on the local clustering has had a significant impact. In Washington, DC, for example, 12 years ago, when we started News Channel Eight, there were nine cable operators. Now, there is Comcast with 70% of this market; Cox with 20%, and then Adelphia with 10% . . . soon to be sold to somebody else probably. So now, you have essentially one or two large operators. Comcast’s ability to attract qualified salespeople, increase commissions, and have more sophisticated selling does have an impact maybe on the level of an independent or a WB type of affiliate. I will make one, sort of, finer point on . . . **a** point that was mentioned earlier. The holy **grail** of cable has been to have the ad dollars track the audience share — that is to say, ten one-share cable channels equal one broadcast ten share.

And it **just** doesn't happen. And the reason it doesn't happen is that there are **unduplicated** viewers involved and, secondly, the sample size, where these lower-level — or these lower-rated — cable channels makes it very difficult to have any credibility to the numbers.

**Victor Miller:** So, you guys would all agree it seems the interconnect, using 80 channels or whatever . . . they've essentially created the economics in a marketplace **of** a WB or a UPN type — like a virtual **fifth-**, sixth-ranked station in the marketplace by using a heck of a lot of bandwidth.

**Jerry Fritz:** If they're clustered, and if they can have the reliability of a technology so that spots **run** when they say they're going to **run**, there's one-stop shopping and things like that. If you have multiple cable systems within a market where they interconnect, isn't a hard interconnect, and doesn't work very well, then it doesn't reach that type **of** . .



**Victor Miller:** Chris, I'm going to start with you on this slide. I know you wanted to add something but . . . here's the inventory loads, and I just want to talk about the impact that this had, either psychologically or just from the reality. Someone had mentioned earlier that we've got too much inventory — I think it was you, Chris. We looked at the inventory loads for the local TV units in 1991, and we found about **296,000** local units. And then, by 2001 it was about 708,000. **So** local TV has added about 400,000 units of incremental advertising. Local cable has added almost a million incremental units. And from the national cable network, we've added almost **3.3** million incremental units **of** advertising in the last ten years. What impact does this have on the television business? Just the fact that we've got too much inventory out there? Is there any spillover into the local TV business just because of this reality? And then I'd like the operators to jump in on that.

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**“That explosion of inventory creates a real pricing problem.”**

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**Chris Rohrs:** Well, if you want to understand why the network cable pricing is suffering compared to broadcast networks, you don't have to look any further than the right side of that screen. That is the biggest problem that the cable networks have, and it's a self-inflicted wound, but that is an explosion of inventory. And the real problem is that most of it is not desirable inventory. By that I mean, tagging on to what Jerry said, it is so low rated that it is not effective and useful for advertisers. In the Washington, D.C., market, as an example, we look at a lot of markets, and we look at the cable and broadcast performance. In the May rating period this year, 99% of the cable network programs in the Washington market did less than a one rating — that's a household rating, so that's the fairest measure you can give them. That's a problem. Ninety-nine percent of cable networks' inventory is doing less than a one rating, and that explosion of inventory creates a real pricing problem. And, after all, it's a supply and demand business; it's a pure marketplace business that we're in. And so, when you have a hyperinflation of supply and demand not strong enough because of the inventory, it's a real problem.

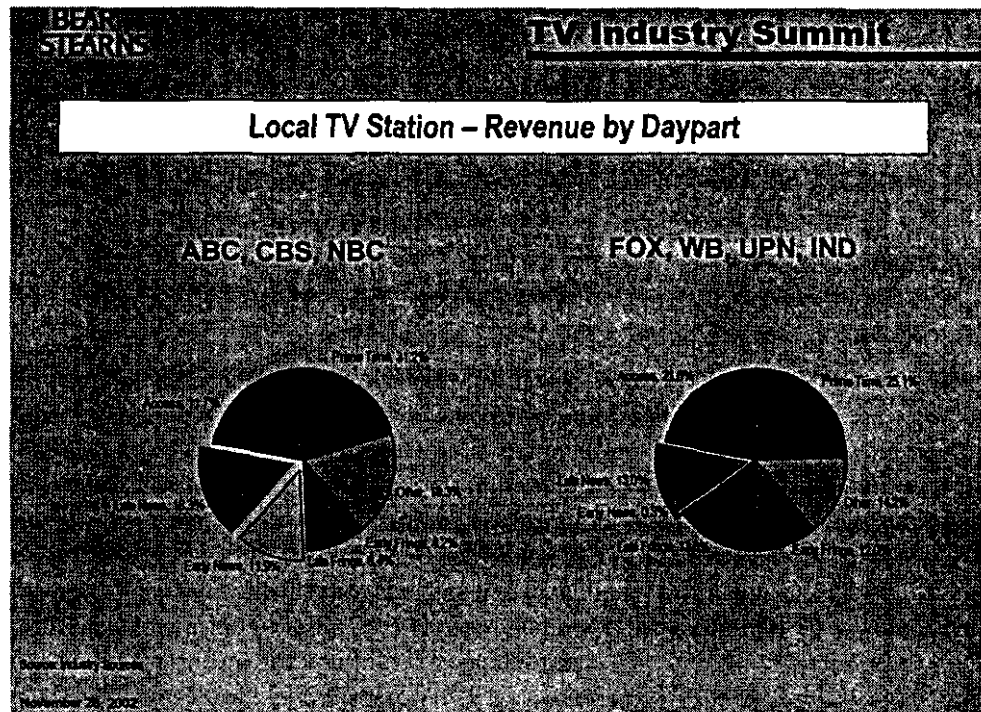
**Victor Miller:** David.

**David Barrett:** Well, it's a business, to follow on to Chris, in which for years, demand exceeded supply. And today's supply exceeds demand, if you look at it in the most simplistic sense. But indeed, the quality of the supply of desirable inventory remains fairly limited. And TV stations have had to become much more adept at differentiating their product, the quality of the inventory they have, and contrasting this aggregation of attractive desirable demos against all these fractions. And the advertisers have had to work a lot harder — the agencies and the clients — to differentiate and distinguish between what's desirable inventory to buy or not. And I contrast it to the magazines. There's over 5,000 magazine titles on a full-service newsstand, if you will . . . only a select number of those — probably less than a hundred — are really dealing in attractive economics that are aggregating ~~mass~~ audience and selling substantial advertising revenues. That doesn't mean there isn't a business proposition with some of these other boutique titles. But the attractive advertising proposition resides in he or she who aggregates the largest of the audience.

**Victor Miller:** Jeny or John, do you think there's been any psychological effect [on the local TV ad market] with this much inventory in the marketplace when you go to sell your advertising, either locally or through your rep ~~firms~~?

**John Lansing:** Yes, I'd like to speak to a positive aspect of that, actually, which is that the psychological effect is to allow us to remind ourselves and remind our advertisers that what we have is still alive and well. If you look at a market like Kansas City or Detroit — I'll take Kansas City — late news in Kansas City, total rating points for late news, 30-34 rating points there sitting in late news in ~~Kansas~~ Kansas City. So, what we're out there selling in a market like that is not just a better product, not just a higher rating, better reach . . . we're also selling a relationship with a local advertiser that we can share with them our own local identity in that marketplace. The public service that local television does, election coverage, sports coverage, prep sports; all these efforts that go into shaping really what our personality is in a marketplace and then taking that to an advertiser and then allowing ~~us~~ to bring creative and innovative ideas for advertising — including program-length

commercials, including live — back to the future — live commercials in local programming; things that get a local advertiser excited about being on television and moving their product. And that part is really . . . that's the positive effect, really, of all the competition that's happening right now.



Victor Miller: Question for you, Jerry, what daypart has been most affected by cable? And the other question is, with cable network starting to dominate sports, rolling out a lot of national network news coverage, and really dominating the kids side of the business, what impact do you see this having on the local television business?

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"This growth of cable programming is really forcing the networks into doing something that we've advocated for a long time, which is 52-week original programming."

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Jerry Fritz: I think the greatest impact has probably been on prime. Over the past ten years, I would say, though, that it's becoming more evenly spread, with the growth of cable channels like E! and Home and Garden and Food and Court TV and the news networks, where there is some original programming. It pretty much tracks our original programming. I think one of the interesting phenomena is that this growth of cable programming, original programming, is really forcing the networks into doing something that we've advocated for a long time, which is 52-week original programming . . . moving away from sweeps, moving toward . . . earlier debuts, the way Fox has early debuted some of the shows in August. But I think you're going to be moving more toward original programming year-round.

Victor Miller: A question for David. ABC, obviously, has been moving — almost all the NBA games are going to be on cable; they used to be on local. A lot of sports are migrating away from that [local television]. What impact does that have on Saturday or weekend economics for a local television station? And the networks used to be in the kids business in a big way at one point — now that's almost a nonexistent business, I think, on a relative basis. All the national networks — CNN, all these things — is that having an effect? They're going after strategic parts of your

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**“The network that moves to the Fox 15-hour-a-week model will have a distinct advantage, and it would greatly help the local stations.”**

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programming day, or your dayparts — your sports, your kids, your news. Is that . . . what do you think happens there? Five years?

**David Barrett:** The case can be made that a lot of the sports programs aren't playing nationally — theratings for hockey, indeed, the ratings for baseball and the World Series aren't appealing across a national distribution platform as well as they historically have; it's very regionally or locally driven. And that allows the cable companies to be a better place, in some respects, to have some of those events. There was a lot of discussion between ABC and its affiliates about the NBA package; the affiliates weren't terribly anxious to have those NBA games because most of those games deliver small audiences. So I think things are going to find their own water level in the right venue. I argue that the networks are trying to overprogram a lot of the scheduling. There are times of the day and times of the week when I wish the networks weren't insisting on programming those time periods at all. I would love to see the model change in terms of how they structure their day — there's too much duplication in 8:00 to 11:00 in prime. The network, I believe, that moves to — one of the three traditional networks that moves to the Fox “15-hour-a-week” model will have a distinct advantage, and it would greatly help the local stations. I would love to see ABC go from 8:00 to 10:00 with prime-time programming, allow us to do an hour of local news at 10:00 at night, and then, perhaps, we'd do a network program from 11:00 to 12:00 and get a head start on the Leno and the Lettermans of the world. But that's to kind of throw a provocative comment out there.

**Victor Miller:** That's what today's about, so let's keep that up.

**David Barrett:** Not everybody on the affiliate side looks at that as a good idea. I think that would — it recognizes that the best economics for the network are in their own stations, and the favorable economics are on the station side. So they would be able to scale back a lot of their entertainment and development cost and focus their attention on fewer number of hours. And I think we'd be happy to compete in our ABC markets at 10:00 — even where we are winning at 11:00.

### Consolidation in the Cable Multiple System Operator Business, 1997 vs. 2002

Rank	1997			2002		
	Cable MSO	Basic Cable Subs	% of Cable Industry	Cable MSO	Basic Cable Subs	% of Cable Industry
1	Time Warner Cable	11.2	27%	Comcast Corporation	21.9	30%
2	Time Warner Cable	11.8	18%	Time Warner Cable	12.6	17%
3	Media One	5.0	9%	Charter Communications	6.8	9%
4	Cablevision Corporation	4.4	7%	Cox Communications	6.3	8%
5	Cox Communications	3.3	6%	Adelphia Communications	5.5	7%
	Total Top 5, 1997	41.6	64%	Total Top 5, 2002	53.1	72%

As of 2002, data as of June 2002. Time Warner Cable data presented above are not per firm but the information was previously consolidated. Time Warner Cable was previously the 10th largest cable company in the U.S. based on basic cable subs, representing 10% of the cable industry. Total basic cable subs would equal 51.1 million basic cable subs, or 80% of the cable industry.

Source: FCC data, Bear Stearns & Co. Inc. estimates.

Victor Miller: The consolidation of the cable industry looks at the top five players. Here are the top five in 1997 (there were approximately 65 million subscribers); **41.6** million basic cable subs, or **64%** of those subscribers were controlled by the top five players at that time. Now, you can see in 2002, we've increased the number of subs by almost **12** million (to approximately **74** million subs), and the concentration level has actually gone up by another 8%, so that the 72% of all of the cable subscribers (53.1 million) are now controlled by just five companies. The question is, according to the FCC, actually — they wrote a piece called “Survivors in the Sea of Competition” — as of July 2002, as many as 22.3 million cable subscribers had access to local or regional news programming as well. So there's a programming angle to this. So, the question is, how has the consolidation of the cable industry affected local cable ad sales, which you started to talk about? And how do local stations view this reality of a consolidating MSO business? And let me start with Chris.

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“I think the bigger story has to do with the regional reorganization of the cable MSOs, where they've more or less split up the country, and each market has a dominating MSO.”

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Chris Rohrs: Sure. Obviously, there's greater concentration there. But I think the bigger story has to do with the regional reorganization of the cable MSOs, where they've more or less split up the country, and each market has a dominating MSO. What that has enabled, among other things, is a stronger sales effort on the local side . . . more concentration of the subscriber base . . . they're able to sell that in a more orderly way. Which, in an interesting way, I view as a positive for broadcast. The reason for that is local cable sales has been a pretty disorganized effort over the last ten years. It is now maturing, and it's been enabled somewhat by the reorganization and concentration — Comcast probably being the most prominent leader of strengthening its local sales organizations because it has the market — individual market concentration. That's going to help us because the disciplines and procedures and accountability that will now be required of them will be an advantage for us; it will now be a level playing field. John began to get into some of those accountability measures — post analysis of media buys. Accurate numbers . . . verification that

spots actually ~~ran~~. All of those disciplines that are used with local broadcast are now going to be expected of the local cable sales operation. So, I *think* the real story here is the geographic concentration and the splitting up of markets among the MSOs.

Victor Miller: David?

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“We need some balance and we need some equity in terms of how ownership is viewed.”

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David **Barrett**: I think this slide bears on the whole ownership question. It's evident that the cable operators can control a significant distribution platform in a marketplace. And we've talked — Jerry has referenced Comcast covering 70% of Washington. As the FCC reviews these new ownership regulations, I think this is a very telling piece of what's on the mind of broadcasters, that we need some balance and we need some equity in terms of how ownership is viewed. The limitations on television operators, when one considers TV duopoly, are in stark contrast to a cable operator being able to own 70% or **80%** of a marketplace. So, I think in the comments that are going to be filed with the FCC, this becomes a very significant element of the whole review of ownership.

Victor Miller: Not along the line of questioning that I had, but I'd just like to get this panel's opinion. Retransmission consent is your right; you either elect or negotiate retransmission consent or must **carry** rights every three years. How much more difficult does an AT&T/Comcast merger make that theoretically in a market where, like Philadelphia, where the two combined (AT&T/Comcast) are **95%** of the entire marketplace in terms of cable? John?

John Lansing: Well, yes, I mean, it obviously puts a monopoly in a more powerful monopolistic position in terms of negotiating retransmission rights. I think this goes back to David's point, and that is the imbalance between power in the marketplace between broadcasters that, in my view, are disadvantaged in their ability to double up in the marketplace . . . to take some of the overhang of expenses out of the local market and create two stations operating under one newsroom perhaps . . . to give a little bit more of an equal footing in negotiating with these growing interests on the cable side that have inherent rights given by the municipality to have exclusivity in that marketplace. . . while broadcasters are held back and, in some cases, not allowed to take advantage of what would be a really smart ability to grow in the market and put two stations together.

Victor Miller: Anybody want to follow that? Jerry?

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“**Now**, not only does a cable system have a number of programming channels, but they potentially can own a broadcast station.”

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Jerry Fritz: I'll just note that to the extent that you have this clustering, and the commission and the courts have now thrown out the cable broadcast cross-ownership rule — that scares us because now, not only does a cable system have a number of programming channels, but they potentially can own a broadcast station. It's a disadvantage because they are the pipeline to disadvantage those who are not in the cable fold. That's point one. Point two: we worry that with this clustering [of a cable system and a local TV station], cable can now have the economies to compete on a programming basis equivalent to broadcasters. **You** see a Comcast with Comcast Sports Net. So now, they take what they can do nationally to local. They can buy up local sports rights and potentially come up with a news operation. Now, I think that news is an incredibly expensive undertaking. We are able to — and all three of us up here that have cable networks — have the ability to provide that localism that cable

“We worry that with this clustering, cable can now have the economies to compete on a programming basis equivalent to broadcasters.”

currently lacks, and we’re able to amortize that investment over not just our broadcast station but our cable network as well. That is duopoly. Even though it’s not regulated by the FCC, that’s a duopoly that allows us to do exactly what we’ve been advocating, which is the ability to amortize those expenses over multiple distribution platforms.

**BEAR STEARNS** **TV Industry Summit**

**Impact of Network Ratings on Local TV Stations – Prime Time**

Ratings for ABC, CBS, NBC, Fox, UPN, and WB for the Broadcast Season

	1999 - 2000	2000 - 01	2001 - 02	Percent Change 1999 - 2002
ABC	9.3	8.3	6.3	-32%
CBS	8.5	8.5	8.1	-4%
NBC	8.6	7.9	8.8	3%
Fox	5.9	6.1	5.7	-3%
UPN	2.7	2.6	2.7	-1%
WB	2.6	2.6	2.5	-5%

Source: Nielsen Media Research

November 28, 2002

Victor Miller: Let’s talk about the news operations and the broadcast networks a little bit. David, I think I’ll start this question with you, and I’ll ask Jerry, too, because I believe both of you have a few ABC affiliates in your portfolio?

David Barrett: We have 12.

Jerry Fritz: We have all of our stations.

Victor Miller: Jerry is 100% ABC affiliates, so he need not look farther than this, the first line on this.

Jerry Fritz: I see Susan Fox [Walt Disney Company Washington counsel] is here someplace.. .

Victor Miller: That’s not her fault. I mean, she didn’t program the network. When a network has a significant audience decline over a year or two, how much can that affect the local affiliate’s economics? I mean, when it comes down to dollars and cents in that time period? Can you give us any sense?

David Barrett: Well, very damaging. We tell people that about 35% of our revenues are derived from local news time periods, and another 30%-35% from prime time. And, of the news time periods, 11:00 is . . . the late news is probably the most significant of the news shows. So, a network’s weakness in the 10:00-11:00 hour is



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“I worry about the third or the fourth news operation in a market. The economics are very expensive.”

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particularly difficult for local stations to deal with, and we have seen significant downward pressure on rates. **Our** rate realization for prime-time inventory at our ABC stations is off sharply. We are advantaged when we can bundle that prime-time inventory with news inventory and attractive syndicated inventory. But, nevertheless, there is a precipitous drop in the rate one can charge for a pure prime-time schedule when you have a No. 3 or No. 4 network demographically.

Jerry Fritz: Weak **daypart** translates into lower per spot rates. This is why the ABC NFL deal went from essentially breakeven even in many large markets under the last deal, not the **current** deal, to a money loser in almost all markets. Now the network will tell you it was never sold to be a breakeven, but, in fact, for larger markets, it was breakeven at least. And, now, because of the network decline, it has been a money loser. It's harder to calculate the lead-in, lead-out effect . . . it's probably lagging on the way up and on the way down. But I will note that, in many cases, the question is really reversed. The local affiliates' news reputation has a very strong impact on the acceptance of the network news. When you have very strong news operations like our Tulsa station or our Little Rock station, which are the tops . . . dominant in the market. That really pulls and lends credibility to the network news. I think **broadcasters** are producing a lot more news now than they were before. But I worry about the third or the fourth news operation in a market. The economics are very expensive. And just witness what happened last week in Detroit, where you have a company with a duopoly that has essentially given up, except on its Fox affiliates now asking the Scripps-Howard station to program that. So I worry about the, sort of, the third and fourth news operations.

Victor Miller: So, in Detroit, the CBS affiliate's no longer in the news business, they own a Fox affiliate in the marketplace?

Jerry Fritz: That's an O&O [owned and operated station of a broadcast network].

Victor Miller: That's an O&O — it's owned by Viacom and, actually, Scripps is actually programming the news on the Fox affiliate.

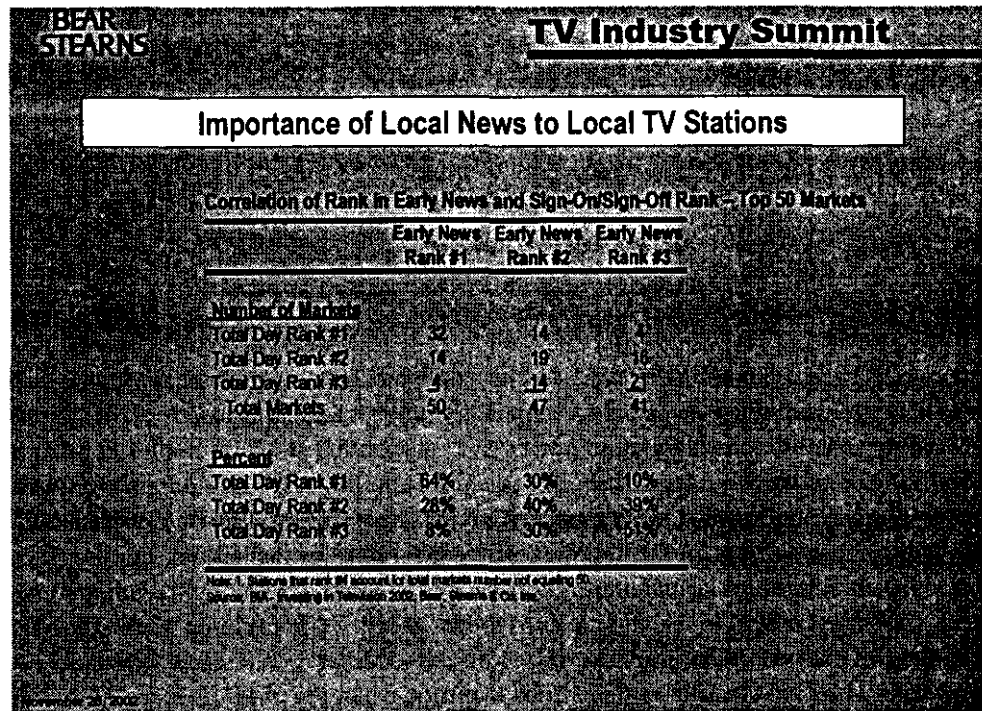
John Lansing: See, I would take the view that there's only so much local news that can exist in the local marketplace. How many live trucks need to show up at a house fire . . . six, seven, five? I don't know. I think the question really is, what's the viable number of news operations that can perform at a level that the public finds it to be serviceable?

Another point I wanted to make, and this is to amplify one that Jerry made. We talk a lot about the effect of network lead-in on late news, and, in fact, it can be devastating if it's low, and it can be fantastic if it's high. But there is the inverse effect. If you look at some of the strongest markets for ABC around the country — and David and Jerry have a couple, and we happen to have a couple ourselves — and then you look at how the resurgence of *Good Morning America* that ABC is proud of and *should* be proud of. . . and I can tell you, you can tie that resurgence directly to the strength of the local stations that were already strong in those marketplaces. And so, that effect is symbiotic.

**Victor Miller:** Do the affiliates try to work with the network and try to see what can be done about prime time? What can we do about this daypart? What is the dialogue between the two parties in hoping to improve this?

**David Barrett:** Well, there's dialogue, there's feedback. But I think the networks, all of them, reserve the right to make their own decisions about the product that they put on the air. What is significant is how much promotion time a leading local ABC affiliate is prepared to devote to network programs to help dig itself out of the hole.

**Victor Miller:** I want to show you a couple of slides here on the local news.



You can see that what we've done here is we looked at the May 2002 ranks for the early news. And the reason we look at early news is because that's the one that's not affected by the networks at all. This is just the strength of the local station on its own, its own selected syndicated product, and its own news show. Well, what's interesting is if you look at, here's the No. 1, No. 2, No. 3 ranked early news. If you are the No. 1 ranked early news, in 32 out of the top 50 markets, you are going to be ranked No. 1 for the entire day; 64% of the time, you will be ranked No. 1. If you're among the top two, 94% of the time you're also among the top-rated stations in the marketplace.

**BEAR STEARNS** **TV Industry Summit**

**Impact of Network on Late News**

	Late News Share	Late News Share	Late News Share
	Early News	Early News	Early News
Market	ABC	CBS	NBC
New York	1.2	1.2	1.2
LA/Orange	1.2	1.2	1.2
Chicago	1.2	1.2	1.2
Philadelphia	1.2	1.2	1.2
San Francisco-Oakland	2.3	2.3	2.3
Portland (Ore.)	0.7	2.1	2.2
Denver P. West	0.7	1.2	1.2
Washington, DC (Metroland)	0.8	1.0	1.0
Atlanta	0.7	0.7	0.7
Detroit	0.2	0.0	0.2
Houston	2.7	1.0	1.2
Seattle-Tacoma	0.2	0.2	0.2
Tampa-St. Pete (Tampa Bay)	0.2	0.2	0.2
Minneapolis-St. Paul	3.0	1.0	1.0
Cleveland-Akron (Canton)	3.0	3.0	2.7
Phoenix	2.0	0.2	1.2
Miami Ft. Lauderdale	0.0	1.0	0.2
Denver	0.7	1.1	1.0
Sacramento-Salt Lake City	2.7	1.0	1.0
Orlando-Daytona Beach-Melbourne	0.7	1.0	1.2
Average of Top 20	0.8	1.7	0.8

Source: Nielsen Media Research

November 28, 2002

What we've done here is we've now looked at the late news, which have higher HUT [households using television; a measure of the average percentage of TV households that are watching TV during a specific daypart] levels, right? We've got more concentrated viewership, viewership is pretty high at 11:00, theoretically, and it's more concentrated — more people actually watching one source of their programming, and that's local news. So, in general, late news shares should be higher than early news shares, and that's what we see in general. But, what's interesting is we've looked at the top 20 markets here, and, in general, the ABC affiliates show a 0.8% share decline in late news relative to the early news program. And you can see CBS is actually a plus 1.7%; NBC, a plus 8.6%. That means if you're an NBC affiliate, the network is actually helping you create a lot of momentum, as you said, that 10:00-11:00 time period going into your late news, and that actually helps. So, it is a symbiotic relationship. So, what is then, what is the flow-through — not only in watching prime . . . decline, for example, on ABC, but it's been CBS in the past, NBC; we haven't seen declines in some time. But what is the impact on the late news when networks have these vacillations in ratings?

**David Barrett:** Well, one can look at this slide in a couple different ways . .

**Victor Miller:** And I'd like you to do that.

**David Barrett:** It's doing a great job from 10:00 to 11:00; at 10:59 there's a lot of audience there, which pushes into the 11:00 news. I'd also observed that, given how poorly ABC has performed in prime, the fact that its stations only have a 0.8 differential means that those local brands are very, very strong. And, really, one **has** to look at these television stations, not just by daypart, but in terms of what kind of branded media franchises they are in the local market. The early news is usually influenced by that 5:00 news, by what's programmed at 4:00. And there's a strong historical correlation between stations that have had Oprah *Winfrey* on the air from

400 to 5:00 . . . have tended to do a little bit better than others in the 5:00 news. And stations that have done well at 5:00 and have a strong news brand can recapture audience at 11:00 at night, notwithstanding what the network lead-in is. And in some cases, one needs to consider how the NBC schedule, which has been fairly hip **as** a brand — it's got some edgy shows . . . in some markets that plays better than others. The NBC schedule plays better in Boston than it does in Greenville, South Carolina. The demographics of that marketplace embrace that brand better in terms of the Boston market. So, all those things have to be taken into account. I'd observe that historically, ABC has had a very strong lineup of affiliates that win in local news. There is an Oprah correlation, but those stations have done a spectacular job across the ABC lineup in kind of holding up the network in its ebb and flow dynamic.

Victor Miller: How many hours of news did you produce, let's say, five years ago? How many hours do you produce, on average, now? And why are you producing more or less news programming?

John Lansing: Yes, we're producing roughly four and half to five hours a day. Where we're expanding recently, frankly, is in the morning. We're starting earlier in the morning, moving to 5:00 A.M. and, in some cases, 4:30, and in . . .

Victor Miller: From 6:00?

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**"One growth area in local broadcasting is the early morning news."**

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John Lansing: Yes, earlier in the morning, from 6:00 in the morning to 5:00 and then, now, in some cases . . . in one case actually we're moving to 4:00 A.M. One growth area in local broadcasting is the early morning news, local news, where gross rating points for morning news in local markets are generally up across the board.

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"The strategy is to dominate what we can control — what we can control and what cable can't control."

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Jerry Fritz: We have about four and half to five hours; it depends on the markets. Some markets are bigger news markets than others. We found, for example, our Little Rock market is not **as** strong **as** our Washington market, just in terms of the demographics of news. That having been said, we have taken the ability here, just recently, in Washington to consolidate our all-news operation, our cable news operation, with our broadcast news operation — which gives us that ability to do a lot more news and to give CNN news inserts for the headline news to do a lot more breaking stories with ten potential live feeds . . . three satellite trucks, seven microwave antennas . . . things like that. So, we place an enormous amount of emphasis on news. Because the strategy is to dominate what we can control — what we can control and what cable can't control — because that's our primary, growth competitor. We've always competed against each other, but to control, to own the news . . . and David said that's sort of a function across all ABC stations. But our group particularly — and, I think, Scripps and Hearst **as** well — is to own the news. And we compete against these guys in several markets, and it's a rough battle. But that's what we want to own. We want to own the news because that's the growth and that's what we can control in the future.

Victor Miller: David, are you producing more or less news than you were five years ago?

David Barrett: We're producing more. I'd echo John's thoughts about expansion in the early morning. I'd also add that in a lot of cases, weekend morning news is

attractive. Our audience tells us that they want more news on the weekends; it is sometimes difficult to reconcile the network programming obligation to introduce local news on Saturday and Sunday morning. But there's a viewer appetite for that, and there's an advertiser appetite for that inventory. And if one looks back seven or eight years of the unit rates that TV stations were getting from 6:00 to 7:00 in the morning and on Saturday morning . . . where there is a news program now, the rate realization is significantly better.

John Lansing: The other thing, Victor, just to tag onto that, is beyond news, there's been an expansion of other programming, including high school sports programming. At many of our stations, weekly sports programming attaches a local NFL team. Also, local programming in other categories; local talk shows, and, in the case of one in Phoenix . . . and we've added local programs in the categories of our cable networks — local home- and garden-oriented programs that allow us to sell the local category in that same branded network that we have at the network level.

Victor Miller: Just how sensitive are local and national advertisers to changes in your local news ratings? Are they less sensitive in that daypart? Are they more sensitive to that daypart in terms of rates? And do local advertisers buy differently than the national advertiser when it comes to your local news programming?

Jerry Fritz: Our buyers across the board are fairly sophisticated, and they are able to discern the strengths of the local versus the network. And so, we strictly sell on the strength of our local news, regardless.

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“Our company probably finds it easier to capture a premium for its audience leadership from the local advertiser.”

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David Barrett: I'd observe on the national level there's more of a commodity notion about this inventory, and that means that we're probably affected by the ebb and flow of audience more in the national buy. Locally, people are watching our stations, they have a better appreciation for the quality in the local news commitment that stations have. And I'd observe that our company probably finds it easier to capture a premium for its audience leadership from the local advertiser, which has a finer appreciation for what we're doing than is the case with a commodity like a national sales transaction.

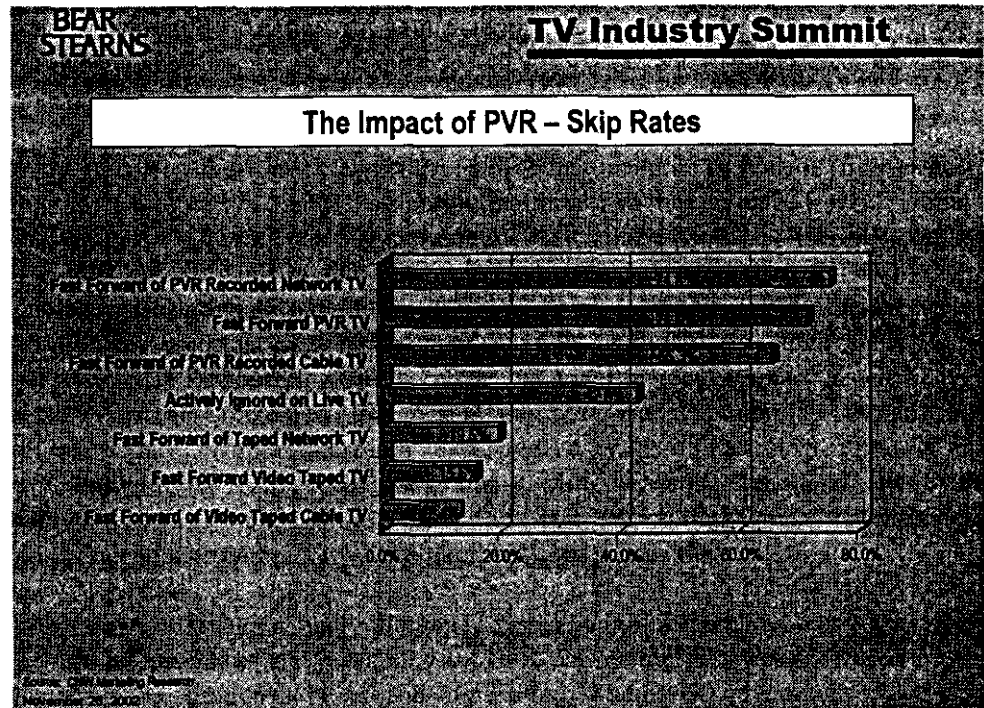
Victor Miller: Now, here's just a theoretical question: if one of the new networks, WB or UPN, actually stopped operating as a network, what impact do you think this would have on the television industry or the local business? Anybody?

Jerry Fritz: I think it would affect the value of local stations, the more networks . . . when you have situations where you have more networks than stations in any market, it just increases the value of the station. Look at what Fox did with New World, where you have more networks and stations, and the networks are willing to pay to keep its distribution, so it affects the value of the stations. We want to make sure that WB and UPN are viable networks.

David Barrett: That branded programming source is valuable for those stations. We'd be in a tough spot in Sacramento if we lost the WB programming source and brand there. It's been advantageous to that station, a smaller UHF station, to help it develop. So, I think it's been very beneficial as stations try to find programming.

Chris Rohrs: Also, it would affect supply/demand equilibrium and affect pricing in a probably significant way — both nationally and locally.

Victor Miller: The Wall Street Journal and The *New York Times* have written three articles in the last two days on some of these topics we'll be discussing today. Yesterday's [November 25, 2002] Journal featured "If Viewers Zap Ads, So Will Buyers." And it talks about the impact of the TIVO's and Replays. And then this morning in the Journal, there's an article on TIVO as well on the front page — a slightly different angle on the article — when you read it for yourself, you'll get to see what we're talking about.



Here's the impact of PVR on skip rates. The skip rate on a fast forward of a **PVR**, recorded network TV, is **75%**. Fast forward PVR/TV, 71%. And you can see that's a lot different than your taped network, a VCR, at 20% and a fast forward on a taped TV about **16%**. It's a dramatically different skip rate. I mean, very dramatic.

TV Industry Summit	
Cost of the Demise of the "Free-Over-the-Air" TV Model – 2000	
Advertising Category	2000 (in billions of dollars unless noted)
Local Station – Local Spot	\$18.6
Local Station – National Spot	\$12.3
<b>TOTAL LOCAL STATION</b>	<b>\$25.6</b>
Broadcast Networks	\$15.9
Syndication	\$3.1
<b>TOTAL TV BROADCAST</b>	<b>\$38.9</b>
Multichannel Video Subscribers (in millions)	88.2
<b>Increase in Basic Tier Fee</b>	<b>\$36.75 per sub per month</b>

NOTE: This figure represents the cost of the demise of the local station advertising business model and another \$14.94 per subscriber per month, bringing the total to \$51.69 per subscriber per month.

Source: National Cable Television Association, Inc. 2000. Data compiled by NCTA. National Cable Television Association, Inc. 2000. Data compiled by NCTA. National Cable Television Association, Inc. 2000. Data compiled by NCTA.

And what's interesting is, we decided that if the . . . what would the cost of free over-the-air TV look like if there's a complete demise of the advertising business? There's about \$13 billion of local spot dollars, \$12 billion of national spot dollars. So the TV business is about a \$26 billion business; the networks are about \$16 billion, syndication at \$3 billion. **So**, total TV broadcast, almost **\$40** billion. There's about 95.7 million multichannel video subscribers, eliminating about three million of overlap, including piracy, SMATV, and MMDS [multichannel multipoint distribution service]. This would imply that if there was a demise of the over-the-air free television business, the increase in the basic tier fee to basically replace this money would be about \$34 per sub per month just for the TV business. And then when you add the cable network business, it would add another **\$15** per subscriber per month. So, cable bills would be closer to \$100 a month without free over-the-air television being supported by the ad model. What the heck are we going to do about this, guys?

**Chris Rohrs:** I like the quote that came out a week or so ago that said that there were more homes in America with outhouses than with digital video recorders . . . which is literally true but. . .

**Victor Miller:** But, once it's in the cable box?

**Chris Rohrs:** Understood.

**Victor Miller:** We can't say that this technology, just because there's not a lot of it today, that it won't exist. In five years, how does this affect the local broadcast TV station economic model?

**Chris Rohrs:** There is going to be a lot of penetration in five years, I think, because people who use the product like it a lot. I think you always have to be cautious about the behavior of early adopters, however, and be skeptical and cautious. There will be

significant penetration, and I personally believe it's going to bring very dramatic changes to television advertising. Some of them **are** evident what they will be — at least I think they are. You will see irregular-length commercials begin to proliferate. And the digital build-out supports that; it doesn't have to be a 30-second commercial anymore. You will clearly see irregular-length commercial breaks. You'll see less predictability . . . and probably you're going to see better commercials across the board; it's going to spawn better commercials. And then everybody will make adjustments in the business model. To say that it's going to lead to more product placement, I don't think that works **as** an alternate solution either because that only works with a couple of products. Very rapidly, you have the problem with too much. **So**, it's going to bring change, but I think it will be evolutionary. And the advertiser and broadcaster will have time to adjust to it.

Victor Miller: Any of you guys?

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“What I focus on is the suggestion of the demise of free **over-the-air** television. From a public policy point of view, that would be **a** tragedy.”

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“The cable companies have built attractive business franchises without paying for the most popular programming.”

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David Barrett: What I focus on is the suggestion of the demise of free over-the-air television. From a public policy point of view, that would be a tragedy for this country. One of the most distinguishing factors of American society has been the availability of free television. And to suggest that unless one had a wire coming into their house, they couldn't get television and a long horizon would be bad public policy in my opinion. And I think all of us ought to be very cautious about that. It does cause you, over a longer period of time, to consider whether the inequity in the cable retransmission consent policy right now is fair and whether that needs to be revisited. And the fact is that the cable companies have built attractive business franchises without paying for the most popular programming that they have. And I would say that the current retransmission consent law has failed in some ways because it stopped short of forcing some kind of mandatory arbitration to reconcile an unwillingness to pay for most popular programming. I think there will be a lot of pressure on Congress that if free television seems to be in a state of demise, **as** an industry and **as** a society, we're going to have to revisit how we want to create a dynamic where free television can be preserved.

Victor Miller: Let's wind up with some final thoughts. The first one is, in the past, the Federal Communications Commission has viewed the **MSO**, the entire multiple system operator in the **80** channels that it has **as** one voice. As a local TV broadcaster, do you agree with this interpretation, and how many voices would you suggest are represented by a cable **MSO**? Do you want to start it? John?

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“Is it a level playing field for local broadcasters to compete? I would say the answer is no.”

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John Lansing: Well, obviously. multiple voice, and growing by the day in terms of the digital build-out of cable services and all the rest of it. I think that mostly speaks to the need for the FCC to recognize the diversity of voices that exists in local marketplaces from cable, newspaper, Internet, radio, television, pay television, and cable would be, I would think, a motivator to at least look at the marketplace and **ask** one basic question: is it a level playing field for local broadcasters to compete? And I would say the answer to that question is, no, based on the regulatory restraints. So my final thought, if that's what you're asking, would be to suggest that local broadcasting is worth saving. I, for one, don't believe that it has an Armageddon scenario. I believe local broadcasters would adapt and are adapting to all the changes that are coming along. I can't think of another sector of the media industry that's



invested more than local broadcasters have in the digital future of this country. And I *think* all we're asking for is a chance to have a fair shake.

BEAR STEARNS

TV Industry Summit

Channels on Representative Cable System – Fairfield County

Owner	Channels on System	Channel % of System
Viacom (Note 2)	14	12.7%
Cablevision (Note 1)	14	12.7%
ABC Time Warner	11	10.0%
General Electric (Note 1)	11	10.0%
Walt Disney Company (Note 3)	5	4.5%
Fox Broadcasting	5	4.5%
Cosmos/Liberty	5	4.5%
USA Networks, Inc.	3	2.7%
E.W. Scripps	2	1.8%
Tribune	2	1.8%
LIN Television	1	0.9%
Landmark Communications	1	0.9%
Paxon Communications	1	0.9%
Shop at Home	1	0.9%
Sony	1	0.9%
Univision	1	0.9%
Meredith Corp.	1	0.9%

Source: Company Reports, Bear Stearns & Co. analysis. Note 1: Cablevision is a subsidiary of Time Warner. Note 2: Viacom is a subsidiary of National Amusements. Note 3: Disney is a subsidiary of Walt Disney Company. Note 4: Fox is a subsidiary of News Corporation. Note 5: USA Networks, Inc. is a subsidiary of Viacom. Note 6: E.W. Scripps is a subsidiary of E.W. Scripps Company. Note 7: Tribune is a subsidiary of Tribune Company. Note 8: Landmark Communications is a subsidiary of Landmark Communications. Note 9: Paxon Communications is a subsidiary of Paxon Communications. Note 10: Shop at Home is a subsidiary of Shop at Home. Note 11: Sony is a subsidiary of Sony. Note 12: Univision is a subsidiary of Univision. Note 13: Meredith Corp. is a subsidiary of Meredith Corp.

November 26, 2002

Victor Miller: Here's the channels on a representative cable system in Fairfield County; David and I both have the luxury of living in Fairfield County and having Cablevision as our provider.

David Barrett: Luxury?

Victor Miller: Well, Fairfield! Viacom has 14 different slots on that cable system — about 13% of the channels on that system. And there's Meredith down there with one; LIN with one; Univision with one; Tribune with two . . . they have a duopoly in the marketplace and they happen to have two slots. So how do you look at this. . . in terms of the voices and this? The voices . . . first of all, let's not walk away from the MSO and how many voices there are. How many voices should there be? And then address this reality as well.

Jerry Fritz: It illustrates sort of the historical disconnect of how the government views ownership. Twenty-five years ago, you had a highly compartmentalized view of ownership in America of the media. You had the national rule if you had a top 50 policy; regional concentration of control; and all the local rules that were segmented by service. You had duopoly rules and newspaper broadcasting and cable broadcasting cross-ownership rules. And then the attribution rules that sort of undergirded all of those ownership rules. Now, I think what Chairman Powell and Paul Gallant's committee are doing . . . they're taking a more holistic view of the ownership rules. And they're saying, wait a minute, what makes it odd that the regulations won't allow one broadcaster to own two television stations but can't own one television station and a local news channel or allows a cable system to own 14 separate . . . there has to be some common definition of what a voice is, and I think

what the chairman and what Paul are doing is trying to take that holistic view to get some consistency of how we define what a voice is. John said it well that these are multiple voices. And what we have to have is a realization that broadcasters have to fit in that mix; that broadcasters should be allowed to fit in that mix and get a duopoly or a triopoly to have the ability to amortize some of those investments over multiple platforms to compete with these other inputs.

**Victor Miller:** Thank you, Chairman Fritz. And, now, Chairman Barrett, what would you do? This discussion's been all about the pressures. What do you think, structurally, would ensure that five years from now, the business remains as healthy as you characterized it when we started this discussion?

**David Barrett:** Well, I think the path we're on with the commission to review all of these regulations and effectively define areas to deregulate will be advantageous for those who are invested in the television business. I think we need a different definition of TV duopoly. I think we need the ability to consider these businesses, local media businesses — whether that includes magazines or newspapers or radio stations or multiple TV stations within some reasonable limitations that justice would be satisfied with — is an area of outcome that I think we can begin to get comfortable with. I am always going to struggle over this voice test because it suggests that each voice is equal, and, indeed, that is not the case. So, I would hope — and there's a lot of thought being put into some of the comments that will be filed with the commission whether we can get away from this notion of voice test altogether because I don't think it will ever be one that we can satisfy ourselves as being equitable across all these different platforms.

**Victor Miller:** Chris, what about a fundamental point. . . is media substitutable? Do advertisers just buy television? Because, remember, the Department of Justice reached a conclusion on the radio business that radio is a distinct marketplace and that's why the 35% revenue share tests were appropriate kinds of benchmarks for the DOJ. But is it true or not true that people can go buy television or in local newspapers or local cable or. . . is there just a TV, local TV, marketplace only?

**Chris Rohrs:** Victor, in my job, I look at that from the point of the advertiser. . . to try to think of it and approach it from that point of view. And, it's interesting when you look at it that way with what's going on in the advertising marketplace right now. There's a phenomenon going on. Some people are commenting on the ad market recovery. There is no ad market recovery; it's a television event that's going on. It's not an across-the-board recovery. Advertisers are clearly looking at their media choices today and are making a very pronounced selection. And I think it's all about the flight to quality or flight to safety. They have no margin for error right now with the investor dollars, and it has to work, unlike a few years ago. So, advertisers are clearly differentiating between media and value in broadcast television. I look at the question from the point of view of the advertiser.

**Victor Miller:** Good point. John, any last thoughts?

**John Lansing:** I would only amplify what has been said several times up here this morning, and that is broadcasting is an important function in our communities. I think it's a great business, and I think any regulatory relief that we could encounter would

give **us** a second wave in order to deal with all of the changes coming around in the next year **or** two.

**Victor Miller:** Any questions from the audience for these gentlemen?

**Federal Communications Commission Question:** You all have talked about the value **of** the quality of your product and the dominance that gives you in the market. What is going to happen with that picture when digital comes into play and you all have more programming streams?

**Victor Miller:** And then I'd like to add to that what happens when broadband comes. So, what do you do with your potential incremental bandwidth, and what do you worry about in terms of other people, like the cable guys, creating more bandwidth? So, why don't you balance those two angles?

**David Barrett:** Well, my comment would be that our primary video will transport from the analog to the digital distribution platform, and that is, indeed, what defines our brand. The opportunities that are going to be available for **us** . . . this past couple of months, if we were in the advanced multicasting environment, our Baltimore television station would have taken its coverage of the tragic sniper incidents here and probably used that multicasting opportunity to provide extended coverage. This past summer in Pittsburgh, when there was the miner tragedy, we had this challenge of, do we go back to the network programming or regular programming? **Or**, how do we satisfy the audience interest in expanded coverage of that story? That is an opportunity, if we can get over the hump with the cable companies and their willingness or their obligation to have to carry our full, multicast signal that provides good service to the community and a good business proposition.

**John Lansing:** That's actually the **issue** I was going to tack on, and that is the cable operator **as** gatekeeper and our ability to really put our digital spectrum to good use, whether it be through a broadband application, whether it be through video-on-demand, whether it be through added services on top of programming, or even high-definition TV. And our difficulty is working with cable MSOs and having the wherewithal to create **businesses** that flow through their systems. And, **as** it stands right now, they're not very willing to see that occur.

**Jerry Fritz:** We could have some alternate distribution for multicasting on digital to offset this incredible expense — the \$3 million in capital plus the \$30,000 a month in **just** powering the transmitter. But, more fundamentally, I think a second or a third or a fourth channel gives **us** the opportunity to amortize our investment over a multiple platform to the extent that we can get cable to carry the signal and that we can get people to view it. When you have 70% penetration of cable and no tuners in the sets, and the host of other problems that attend to DTV conversion, we're looking well into the future for the ability to amortize that investment over multiple streams. I think sort of really in the future . . . a change in the FCC's ownership rules, along with the conversion to digital, will allow broadcasters to do things like teaming up with newspapers so that you have a separate type of highly targeted niche channel that you can program over a DTV multicast stream. But that would require the commission **to** do something with the newspaper broadcast cross-ownership rule,

which, **as** you personally know, led to the demise of and creation of a monopoly newspaper town here in Washington, D.C.

Victor Miller: Any other questions?

John Kornreich: How do we get a handle on how much of political is incremental? I know, Dave, you've been in the forefront of playing down somewhat the incremental importance of political. How do you get a handle on it? And secondly, any comments on where the political advertising is going over the next couple of years, given some of the restrictions that might be in place?

David Barrett: I guess, John, I'm playing it down a little less now that the volume is so staggering. I said in our October 30 call that this year, we estimate that 50% of our political revenues are incremental. At least that's a more precise number than I had given in the previous campaigns, but that's how we dimension it in **2002**. I'm one who believes that there will continue to be political . . . extensive and voluminous political spending in future campaigns. I think money will migrate to state organizations **as** opposed to residing in some of these federal coffers. And I think it's going to be difficult for anybody in this country to get elected to office if they're not **an** incumbent without spending extensively on television, and I think candidates will continue to do that.

Chris Rohrs: I agree with that. Political advertisers are no different than automobile advertisers, retail, movie. in that they have figured out that the way to close the deal is through television. And so, that's the prime motivator and will continue to be in place. It's the same way **as** if you have to launch a movie successfully, you have to sell an SUV in that incredibly crowded environment . . . you need television. So that will continue to motivate how the funds flow. I think they'll figure out what . . . the motivation will come from the fact that it works for them.

John Korneich: One other politically motivated question. Most of the broadcasters I talk to are feeling very good about late November and December pacsings. Is it possible, though, that some of that money was pushed aside in October and the first week in November and is simply now coming back in, in late November and December? And that the underlying trend really isn't **as** healthy **as** it appears?

Victor Miller: Chris, go ahead.

Chris Rohrs: Some of that is true. There's always some displacement. But, balancing that, we just released our figures for the third quarter, and of the **25** categories that we track, **22** of them were up in third quarter. So, we think it's **an** across-the-board strength. There is some displacement that pushes money into November and December but . . . and, particularly, there's great strength in automotive. There's amazing strength in movies. Retail is very strong. So, it appears to be across the board at this point.

Victor Miller: **Thank** you.